

### 3 Turkish banks' digitalisation

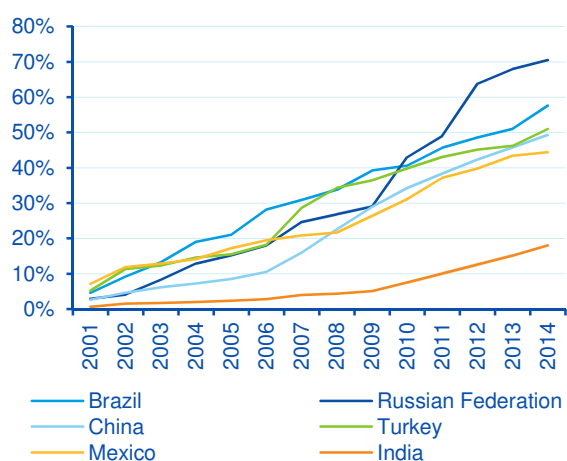
#### At the forefront of innovation

Mobile phones have evolved from pure communication handsets to tools that consumers use for banking, payments, shopping, entertainment and socialising. Their increasingly widespread use and their ubiquity are changing the way that consumers access financial services, the way they make payments and make financial decisions in general. Turkey is in a privileged position to embrace digital financial changes, given its large young population, with high mobile penetration and a healthy financial sector which has been at the forefront of financial innovation by quickly changing from channel orientation to prioritising the customer.

#### Turkish digital generation

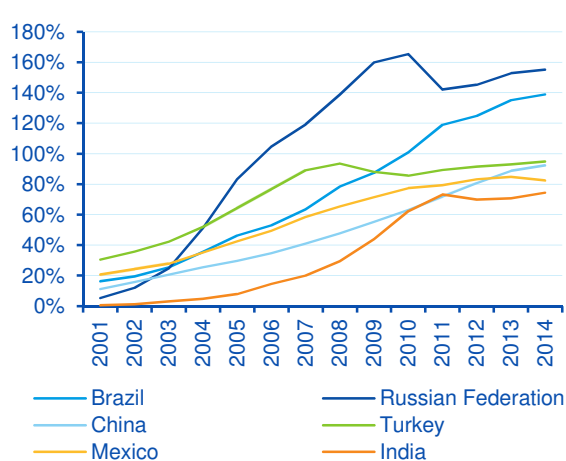
Turkey has a favourable environment for the adoption of new technologies and embracing digital changes. Despite the recent economic slowdown, Turkey's GDP is growing at around 3%. It is a large country with more than 81 million inhabitants, and about 40% of its population is under 25 years old. Turkey enjoys high mobile penetration (the number of mobile subscriptions was 95% of inhabitants at end-2014 vs. 120% in developed markets<sup>2</sup>) and the number of internet users is increasing over time (51% of inhabitants at end-2014) although still below those in developed markets (79% at end-2014). The usage of smartphones is also picking up, with smartphone penetration close to 40% at end-2014. The use of online social media is also very popular, with Facebook taking the lead with a 26% penetration rate. E-commerce transactions continue to increase significantly. In Europe, Turkey ranks second in the number of credit card transactions, making the country an attractive market for the payments industry. Therefore, the potential for e-banking and mobile banking is high, with customers receptive to enhanced customer experiences.

Figure 3.1  
Percentage of individuals using the internet



Source: BBVA Research based on ITU

Figure 3.2  
Mobile subscriptions per 100 inhabitants



Source: BBVA Research based on ITU

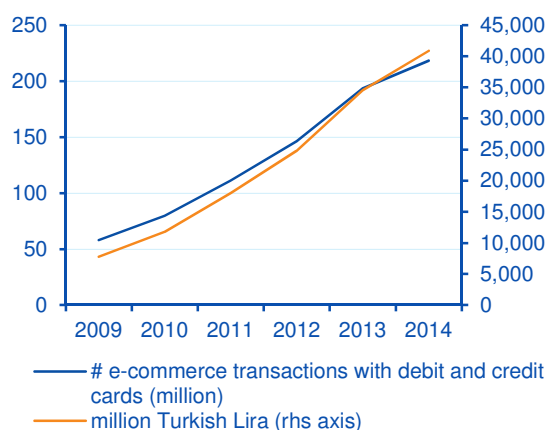
#### Digitalisation is revolutionising the global banking and payment industry

The internet has changed the way we search for information and shop for products. Mobile technology has a far more wide-reaching impact, though, as in the developed world almost everyone has a mobile and in the developing world the usage of mobile is not only increasing quickly but it enables banks and businesses to reach rural and unbanked populations, accessing new customers. Increasing customer demands (they want things quickly, easily and right now) combined with on-going competition from non-bank providers are driving

2: Based on the United Nations classification, which basically includes Northern America, Europe, Australia, New Zealand and Japan.

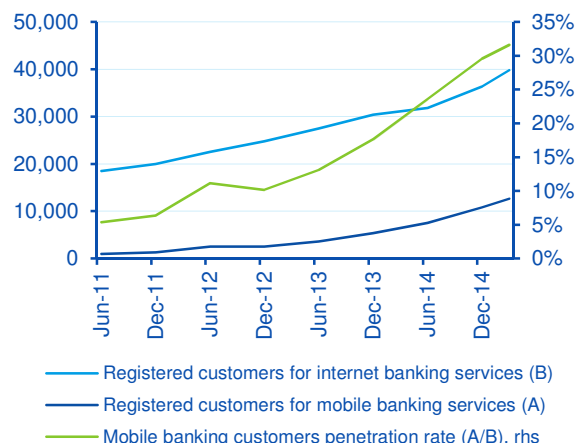
the changes in the industry. For banks, mobile should become another channel for doing business, as it is essential to combine branch offerings with integrated digital services. Several Turkish banks have already changed their mind-sets, providing value-added services to ease daily banking actions with a customer-centric approach.

Figure 3.3  
**Transactions with debit and credit cards (# million and TRY mn)**



Source: BBVA Research based on the Banks Association of Turkey

Figure 3.4  
**Registered customers for internet and mobile banking services (thousand)**



Source: BBVA Research based on the Banks Association of Turkey

## Turkish banks are leaders in the adoption of several digital technologies

The Turkish banking sector has experienced tremendous growth in recent years, with total assets increasing about tenfold in the last 10 years. Several Turkish banks grasped the opportunities posed by technology and innovation and have analysed their customers' behaviour, needs and expectations to offer personalised and value-added services. Here are some examples:

- Access to deposit and credit card accounts through Facebook – customers can access their accounts, see their account status, their assets and liabilities as well as send money to their friends on Facebook and apply for credit cards and loans.
- Biometric authentication at ATMs and in branches – customers can withdraw cash using their fingerprint.
- Credit cards with built-in authentication technology, completed with keypad and screen – customers enter their PIN on the card's keypad and the card displays a one-time password, to either access online banking or validate an online purchase.
- "Mobile branch" app for mobiles – in addition to core banking features, the app includes enhanced functionality, such as a simplified authentication process, the ability to live-chat with customer service representatives and a wallet that allows the customer to: i) send money to any mobile phone number; ii) shop on e-commerce sites, and iii) withdraw cash at ATMs.
- Customer experience through voice-based services – customers can talk to virtual assistants to enquire about their account details, transfer funds, get exchange rates or buy/sell foreign currency, instead of tapping their way through the app.
- Touch fingerprint log-in and mobile signature – it removes the need to type a PIN into mobiles, enabling a quick and easy log-in. The mobile signature eliminates the need for SMS validation in online banking proceedings. An interactive message is sent to the users' mobile phone during cash payments.

These innovations make it clear that Turkish banks are at the forefront of innovation in digital banking, and therefore developments in this market should be carefully monitored.

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